Financial First Aid

Smart Remedies for Hundreds of Curable Money Ailments from Dealing with Debt to Protecting Your Assets

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For Maya,
often neglected, but always loved

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M. L. S.

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Introduction

Flat broke. Uninsured. Out of work. Homeless. These are just a few of the fears that keep honest, hardworking Americans awake at night. The specter of financial failure is even more frightening because it can strike through no fault of your own. A spectacular run of bad luck can land even a tycoon on the streets.

Not all financial ailments have dire consequences, however. Our modern world wreaks minor fiscal havoc daily—with "snafus," "computer glitches," "human error," and "the fine print."

Of course, some of us also suffer from self-inflicted financial wounds. Haste, carelessness, lack of knowledge, and plain gullibility can easily lay our assets low.

Whatever their cause, no matter how serious they are, one must deal with financial ailments. Otherwise, they will grow worse, until the finest financial doctors may not be able to restore you.

No one is immune to financial problems. Even the most diligent money managers can fall victim to an ailing economy, tax maladies, damaged credit, or computer viruses. The remedy may be as minor as a Band-Aid or as urgent as critical care. You have to seek treatment, though. And that is where this book can help you. In the chapters that follow, you will find a prescription for almost every financial affliction, including what to do:

- To correct bank errors.
- To manage your debt.
- To raise a home down payment.
- To file a consumer complaint.
- To resolve warranty disputes.

- To preserve your assets when serious illness strikes.
- To avoid being turned down for insurance.
- To obtain the best insurance rates available.
- If you are refused a loan.
- If your credit report is wrong.
- If you are audited.
- If you owe federal or state tax.
- To overturn tax penalties.
- To fight a property tax overassessment.
- To dispute erroneous bills and credit card charges.
- To protect yourself when buying a home.
- If your stock loses value or becomes worthless.
- If you do not have an employer retirement or health plan or the plan is terminated or goes broke.
- If your bank, brokerage firm, or insurance company goes under.
- If your home value declines until you have a negative equity.
- If you are threatened with foreclosure.
- If you are pursued by debt collectors.
- If you lose bonds or stock certificates.
- To ensure your financial privacy.
- If your health plan refuses to pay for services.
- If your Social Security earnings record is wrong.
- If your credit cards are lost or stolen.
- To make sure your family is financially secure if you die.
- To avoid probate.

The answers to these and a plague of other topics that might ail you are grouped in chapters dealing with banking, borrowing and credit cards, consumer problems, home ownership, insurance, investments, divorce, taxes, retirement and pension plans, and estate planning and death.

This is not a book for professional problem solvers. If you have been stricken with an ailment only lawyers can cure, you should seek legal help as soon as you have an elementary grasp of the basic remedies outlined in these pages. Most readers, however, will find relief for their troubles by following the over-the-counter advice dispensed in this book.

Step-by-step instructions for treating each disorder are presented. If there are several forms of relief, they are all discussed in detail. Where appropriate, names, addresses, and telephone numbers of regulatory agencies or helpful organizations are included, along with sample letters you can use to state your case, demand a remedy, initiate an investigation, or involve third parties. Finally, where applicable, the book provides tips to prevent fiscal upsets before they occur.

Keep this book handy. It is an all-inclusive reference work for many financial irritations, mishaps, and disasters. Use it the same way you would use any first aid book, such as the *Physicians' Desk Reference* or *The American Medical Association Family Medical Guide.* Sooner or later, unfortunately, you are likely to come down with some financial malady.

CHAPTER ONE

Cash and Banking

It is easy to blithely charge hundreds, even thousands of dollars without feeling as if you have spent so much as a cent. It is much harder to shell out a dollar bill. Parting with a dollar makes us feel poorer.

Maybe that is why a financial crisis involving cash invokes our most primal fears. Losing your credit card is inconvenient; losing your last dime is terrifying.

Fortunately, few of our cash and banking maladies are the stuff of nightmares. And with the advice in this chapter, they can be quickly corrected. Some of the afflictions are mild—earning a low savings rate or not knowing how to balance a checkbook. Some are nuisances, such as mix-ups with electronic bill paying. And, if you are ever stranded in a strange city with no money, you can find help in these pages for that emergency, too.

■ CASH

AILMENT
I need to send cash to a relative in a hurry.

℞ No need to panic. It is fairly simple, although hardly cheap, to get money where it is needed. Here are your options:

Western Union. If you have a credit card and a telephone, you can hire Western Union to deliver cash for pickup at any of 16,000 locations in the United States and overseas. Inside the United States, you can use MasterCard or Visa to charge transfers of up to $2000 by phone. If you need to send more than $2000, you will have to go to a Western Union office. If you go in person, Western Union will accept MasterCard or Visa, a cashier's check, or cash.

Western Union charges from $15 for a $50 transfer to $203 to send $5000. Whether you will pay more for an overseas transfer depends in part on where the money is going. There is no surcharge on Western Union transfers to London or Paris, for example, but you will pay an extra $52 to send the same amount to Barcelona.

Moneygram. Moneygram is Western Union's chief rival in the money-moving business. To send cash, you will have to go to a Moneygram office. However, Moneygram will accept telephone orders for an extra fee if you have a MasterCard, Visa, or Discover card. Moneygram does not accept the American Express card.

Moneygram charges $13 to transfer up to $100. Sending $300 costs $20; $1000 costs $49; $2000 costs $79; and transferring $5000 costs $199. There is an extra charge for foreign transfers of $2000 or less, but no surcharge for larger amounts.

For locations, call Western Union at 800-225-5227 and Moneygram at 800-926-9400. Use the same numbers to order a cash transfer by phone.

Bank wire transfer. The best bargain when sending money is to use a bank or savings and loan to make a wire transfer of funds—to another bank or thrift near the person who needs cash. The more money you are moving, the more you will save.

Unlike the sliding-scale fees used by Western Union and Moneygram, banks generally charge a flat fee—usually $25 or less. The transfer takes less than an hour to complete in the United States. Overseas transfers usually cost around $30 and take longer because business days do not coincide. Most banks also charge the recipient of the cash a small fee ($15 or more).

Even if you are not near your own bank, you can use your MasterCard or Visa to get a cash advance at almost any other bank. Then use that cash to fund a wire transfer.

Delivery services. The most obvious way to get money from one pocket to another is overnight mail. But it is unwise. Sure, you can slip a wad of bills into an envelope. But the major overnighters, such as Federal Express and United Parcel Service, will not accept a package they know contains cash. The U.S. Postal Service does not prohibit mailing cash, but it advises against it. And no delivery service will pay a claim for the money if the envelope gets lost.

AILMENT

I am away from home and need cash.

℞ If you are stuck without a credit card, you could ask someone to wire you what you need (see previous discussion). Or, if you are carrying plastic, you could wire yourself money by calling Western Union or Moneygram and charging the transfer to a credit card. But there are easier—and cheaper—options.

If you can scrape by with $500 or less, your best bet may be an automated teller machine (ATM). Most ATMs in the United States and an increasing number overseas are linked to one of two national networks: Cirrus and Plus. The result: The same card you slip into your hometown machine will produce instant cash in Peoria or Paris.

Cirrus and Plus now honor most members of regional networks, too. Look for the logos of the systems they honor plastered on the ATM. The odds are that wherever you are an ATM machine will recognize your ATM card and dispense cash. There may be a nominal transaction fee, most often $2 or less.

ATMs have drawbacks, though. You usually cannot withdraw more than $500 a day. And ATMs are not always reliable—systems go down, individual machines run out of cash, and sometimes there is trouble getting through to your home bank.

If your ATM card is not accepted by a particular cash machine, your credit card probably will be. MasterCard, Visa, American Express, and Discover work in most ATMs. Just make sure you know your personal identification number (PIN) when you travel.

During banking hours, you can withdraw cash up to your credit limit if you take your credit card inside. But whether you get cash inside or outside the bank, you start paying interest from the day you get the advance. The exception: The Discover card charges a transaction fee equal to 2½% of the cash advance (a minimum of $2.50 and no maximum) and gives you an interest-free grace period as long as you pay your bill in full each month. American Express customers have other options depending on which card you have.

AILMENT

I have forgotten the personal identification number (PIN) for one of my bank cards and cannot withdraw cash.

℞ Call your credit card issuer and explain this common problem. You will typically be asked to supply such personal data as your mother's maiden name and one of your most recent charges as proof you are not an impostor. After the issuer is sure you are who you claim to be, you will be given a new PIN over the phone. Write it down right away, so you will not forget it before you have a chance to use it.

☐ Prevention

Every financial expert warns against carrying your PIN around with you. This is sound advice, but not much use on a street corner. Most of us have several credit and ATM cards, all with different and in no way memorable PINs. A more useful suggestion is to write your PINs without identifying them as such on a scrap piece of paper and place it in a separate compartment or pocket from your ATM and credit cards. If you cannot remember which PIN belongs to which card, code each number some way that will not be readily obvious to a stranger—maybe an S for Visa, instead of a V. Use your ingenuity.

■ BANKING

AILMENT
I want to get the highest interest on my bank savings.

℞ Interest paid on checking and passbook savings accounts is laughable. The only bank investments with potential are certificates of deposit (CDs). Because you agree to lock up your money for between six months and five years, banks pay higher interest on CDs than on other accounts. Don't get excited, though. With yields averaging around 4% for short-term certificates of deposit and just under 6% for the five-year variety, CDs barely beat inflation. Their appeal lies solely in being federally insured. Check newspaper ads and call savings and loans in your area to find the highest rates.

Even better, invest in out-of-state CDs and beat the averages by one-half to one percentage point. But before you do, be aware that shopping far from home has some minor drawbacks:

■ You may not get the quoted rate. Rates can change daily. When you mail a check, you get the rate in effect on the day your check arrives. You can do away with the delay with a same-day wire transfer of funds, but your bank may charge a $10 to $15 fee.

■ It is harder to check the pulse of a distant institution. But close monitoring of the bank's health is not needed. Just make sure the institution has federal deposit insurance and keep your deposit under $90,000 or so (so that the principal plus earnings does not exceed the $100,000 insurance limit).

How CD rates stack up. You have tracked down the CD with the best yield. But is it really? Sometimes even the analytical mind of Sherlock Holmes would falter in comparing CD yields. That is because they can be stated in so many ways. To make sure you are not comparing apples and oranges, ask an officer in each of your prospective banks—or your broker—exactly how much money you would take home when, say, a $1000 one-year certificate of deposit matures.

Saving strategies with CDs. Interest rates have been remarkably stable—and depressingly low—in the 1990s. If that condition changes and rates begin to fluctuate, some strategy will be needed to improve your yield. In times of flux, spread your cash among CDs with due dates six months apart. That way some of your money will soon be available to reinvest if rates rise, and some will be locked into what may prove to be superior yields if rates fall.

Use a different type of hedging if you decide on long-term CDs. Ask whether the bank will let you make partial withdrawals from one large CD. If not, put your money in several smaller ones. This strategy lets you avoid paying the early-withdrawal penalty on your entire investment if rates rise and you want to move part of the money to new, higher-rate CDs.

You can also let a broker shop for you if you are in the market for several CDs. You will forfeit a quarter point or so in fees, and you must have an account with the brokerage. You can often open an account simply by calling a broker and supplying a few basic facts over the phone. If not, request a mail-in application. Although there is no fee to sell you a certificate, brokers may charge for the account if you do not buy and sell securities with them regularly. Once you have opened a brokerage account, you can switch to higher-yielding CDs at other banks without having to open a new bank account each time. You will not have to pay early-withdrawal penalties either. Unlike banks, brokers maintain an active secondary market in CDs. You may not get face value if interest rates rise after you buy your certificate. But you usually will lose less on the sale than you would with an early-withdrawal penalty. And if interest rates have dropped, you can probably sell at a gain. Like bank CDs, brokered CDs are federally insured up to $100,000. Most brokers accept minimum deposits of $1000.

☐ Prevention

Investing with a bank or savings and loan is almost an oxymoron. Put your money almost anywhere else and you will earn more interest. (Stock yields are historically even higher on average than interest-bearing investments, but pose greater risk.)

Money market mutual funds. If the combination of yield, liquidity, and safety ranks high on your list, it is hard to top money market mutual funds. These funds invest solely in short-term debt securities, such as Treasury bills, commercial paper, and certificates of deposit. If you are in a high tax bracket, you may earn more, after taxes, with tax-free money funds that buy short-term tax-exempt municipal bonds.

The interest rate paid by a money fund depends on its portfolio and the cost of money, but it is usually higher than bank CDs. The minimum initial investment is usually $1000 to $5000. You can add to your account or withdraw money at any time without penalty or a charge. Most funds offer unlimited check-writing privileges, as long as each check is for $500 or more. There is no minimum balance requirement once the account is open, nor does your interest rate fall if your balance drops below a certain amount.

Money funds are *not* federally insured. However, funds can be trusted to go to great lengths (including covering any losses to protect investors) to keep public confidence in such funds high.

To invest, call a fund's toll-free number and ask for a prospectus and application form. You can also set up a money fund with a stockbroker.

Credit unions. A credit union account is a lot like a bank checking account—but better. Credit unions usually exceed the rates paid by your local bank or savings and loan (S&L). Fees and minimum balance requirements tend to be lower, too. You do not belong to a group with a credit union? Ask friends and business colleagues if they are members of a credit union you could join. Your alumni association or church are other possibilities. Or write or call the National Credit Union Association (P.O. Box 431, Madison, WI 53701; 800-937-2644) for the address of your state credit union association, which can refer you to local credit unions you may be able to join. Be sure to pick one that is federally insured.

Finance companies. Some finance companies, such as Beneficial Finance and Household Finance, are active in the savings market too. Beneficial, which markets CDs by mail and toll-free number (800-835-1015) from its insured Delaware banking subsidiary, recently was paying an 8.78% yield on a six-month CD and 9.05% on a one-year maturity CD.

☐ Resources

Top-yielding CDs are listed weekly in such newspapers as the *Wall Street Journal* and *Barron's*. Or you can subscribe to an interest-rate newsletter, such as *RateGram/RateFax* (single issues $10 and $25, respectively; 415-479-3815) or *100 Highest Yields* (eight weeks, $34; 800-327-7717), both of which include safety ratings.

AILMENT

I want to avoid being taken in by misleading bank advertisements.

℞ Many financial institutions use complicated and often misleading ads and gimmicks to puff up promised yields and downplay or even hide the true risks. To sidestep deceptive ads and invest in reliable CDs, watch out for these common ploys:

Teaser CDs. Some banks and savings and loans promote certificates of deposit that pay teaser rates—initial yields as high as 20% that expire within a few weeks. Your yield will usually be lower than with a fixed-rate CD. For example, a bank might offer a three-year CD with a 19.89% teaser rate that declines to 8.35% after three days. The combined rates return only $260.12 on a $1000 investment. Compare that with the $304.90 that you could earn on a three-year CD paying a fixed rate of 9.25%.

Other teaser CDs switch to variable rates after a short time, making their actual return impossible to predict. But the yield is likely to be lower than the initial rate's yield, and also lower than a fixed-rate CD with the same maturity. Instead of locking up money to earn a variable rate, buy six-month, fixed-rate CDs.

Tiered rates. Many institutions advertise high yields on CDs and savings accounts, but you have to deposit large sums to earn them. On so-called tiered-rate accounts, your money earns different rates depending on how much you have deposited with the bank. For example, a bank may offer to pay 6.8% on $2500 or more, but only 6.3% for deposits of $1000 to $2499.

Phantom yields. A number of institutions quote annual yields on three- and six-month CDs without mentioning that the yields are purely hypothetical. Reason: There is no guarantee you will be able to reinvest at an equally alluring rate when the CD matures.

Junk CDs. Beware of CDs promising yields two to four percentage points above the rest. They probably carry the highest risk. These are usually so-called junk CDs, offered by many consumer lending companies, banks, thrifts, and S&Ls. Junk CDs, also known as subordinated debentures or "sub debts," are nothing more than the bank's own IOUs and therefore are not federally insured. They are really long-term loans—and risky loans at that. In the event of bankruptcy, depositors, general creditors, and holders of "senior" debt get repaid first. Only then, if anything is left, are subordinate lenders repaid. You cannot sell your notes before they mature, because no secondary market exists. But the bank can call, or redeem, many of these subordinated notes the minute rates go down, cheat-